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No. 01-701

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IN THE

Supreme Court of the United States

TACO BELL CORPORATION,

Petitioner,

v.

WRENCH LLC, JOSEPH SHIELDS, AND THOMAS RINKS,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

REPLY BRIEF OF PETITIONER

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REPLY BRIEF OF PETITIONER

Petitioner Taco Bell Corporation's ("Taco Bell") petition for certiorari sets forth a clear, substantial, and mature conflict between the Sixth Circuit and the Second, Seventh, Eighth, Ninth, and Tenth Circuits on an important question of federal law: namely, whether the Copyright Act secures to the copyright holder the right to be paid the reasonable value of another's unlawful use of his work. See Pet. i, 8-11. The Sixth Circuit held that the Copyright Act does not do so, and accordingly ruled that section 301 of the Act, 17 U.S.C. § 301, does not preempt an equivalent state-law right claimed under an implied-in-fact contract. See Pet. App. 15a, 20a. Respondents' argument that the Sixth Circuit holding that is the basis of the circuit split is dictum that is irrelevant to section 301 preemption analysis is unfounded. Indeed, the Sixth Circuit itself rejected that very argument in staying its mandate pending disposition of this petition. The question presented is of fundamental significance both to cases brought directly under the Copyright Act and those asserting preemption under the Act, is cleanly presented by the decision below, and warrants immediate resolution by this Court.

Respondents do not, and cannot, contest the existence of the 5-1 split of authority on the question presented. The Sixth Circuit squarely held that the Copyright Act does not provide for "damages for the reasonable value of the defendants' use of the work." Pet. App. 16a. Five other circuits expressly and unequivocally hold to the contrary. See *Davis* v. *Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001); *Kleier Adver., Inc.* v. *Premier Pontiac, Inc.*, 921 F.2d 1036, 1039-40 (10th Cir. 1990); *Deltak, Inc.* v. *Advanced Sys., Inc.*, 767 F.2d 357, 360-61 (7th Cir.1985); *Sid & Marty Krofft Television Prods., Inc.* v. *McDonald's Corp.*, 562 F.2d 1157, 1174 (9th Cir. 1977); *Nucor Corp.* v. *Tennessee Forging Steel Serv., Inc.*, 513 F.2d 151, 152, 153 & n.3 (8th Cir. 1975). See Pet. 8-11.

Respondents desperately attempt to avoid this conflict of authority by reframing the question presented as whether "§ 301 . . . preempt[s] implied-in-fact contracts containing a promise to pay for the use of copyright subject matter." Opp. 8; see also *id.* at i, 6. They then devote substantial argument to knocking down a strawman, contending that their reframed question is not the subject of a circuit conflict and is otherwise unworthy of this Court's review. See *id.* at 8-11. But theirs is simply not the question presented by the holding below, and indeed Taco Bell has never argued, to the Sixth Circuit or this Court, that all implied-in-fact contracts are preempted. To the contrary, Taco Bell's position (unacknowledged by respondents) is that "the Copyright Act does not forbid enforcement under state law of the specific terms of licensing agreements or similar contracts," and "[w]here the enforcement of specific contract terms is at issue, it will be immaterial whether the contract is express or implied by the actions of the party, since these are simply different ways of proving mutual assent and consideration." Pet. 12.

The issue presented for this Court's review arises from the Sixth Circuit's interpretation of the Copyright Act that is the necessary predicate of its ruling that respondent's implied-in-fact contract was not preempted under section 301. Adopting Taco Bell's position, and following leading judicial and scholarly authority, the district court had held that not all claims of express or implied contracts are preempted, but preemption "depends upon the precise contract right being asserted." Pet. App. 50a. In this case, respondents allege an implied-in-fact contract without a price term, and assert a state-law right to be paid the reasonable value (as determined by a jury or court) of the use of their work. This state-law right is preempted because it is equivalent to the copyright holder's right under the Copyright Act to be paid the reasonable value (as determined by a jury or court) for the infringer's use of a work (i.e., reproduction, adaptation,

publication, and display of the work, 17 U.S.C. § 106). As the district court held:

> The rights Plaintiffs are asserting are equivalent to rights under the Copyright Act because they are based upon Taco Bell's reproduction or use of Plaintiff's ideas for creation of derivative works. A promise not to use another's ideas and concepts without paying for them "is equivalent to the protection provided by section 106 of the Copyright Act."

Pet. App. 50a-51a (quoting *Del Madera Props.* v. *Rhodes & Gardner, Inc.*, 820 F.2d 973, 977 (9th Cir. 1987), *overruled on other grounds, Fogerty* v. *Fantasy, Inc.*, 570 U.S. 517 (1994)).

The Sixth Circuit rejected the district court's preemption analysis solely based on its conclusion that "the right to be paid for the use of the work is not one of th[e] rights" granted by section 106, noting that "[t]he remedies available under copyright law do not include damages for the reasonable value of the defendants' use of the work." Pet. App. 15a, 16a. The Sixth Circuit reiterated this holding at the conclusion of its preemption analysis, stating that there is no preemption because the expectation of compensation "is an element not envisioned by § 106." *Id.* at 20a. Thus, the Sixth Circuit directly held that the respondents' claimed state-law right to be paid the reasonable value of the use of their work was not preempted because the Copyright Act did not provide for such compensation. It is this essential and explicitly stated predicate of the Sixth Circuit's preemption ruling—that the Copyright Act does not entitle the copyright holder to be paid the reasonable value of the infringer's use—that is the issue presented for this Court's review, and that is the subject of the uncontested circuit split.

Respondents repeatedly strain to dismiss the Sixth Circuit's Copyright Act holding as "dictum" that is irrelevant to the preemption analysis. See, *e.g.*, Opp. 1, 7, 14, 17-18, 21, 22.

This is wishful thinking. The text and logic of the Sixth Circuit's opinion in overruling the district court, much of which respondents ignore, belie this assertion. Moreover, respondents' principal reason why the Sixth Circuit's holding must be regarded as dictum—that analysis of remedies under the Copyright Act is allegedly "entirely irrelevant" to preemption analysis, see *id.* at 19, 20—betrays a misunderstanding of the law.

Respondents accuse petitioner of "fabricat[ing] from whole cloth a brand new preemption test" that is foreign to the two-part test uniformly applied by the courts of appeals in determining section 301 preemption. Opp. 20. That charge is baseless. As stated in the petition (Pet. 8-9), there is no dispute that the proper test for preemption under section 301 is whether "the work is within the scope of the 'subject matter of copyright'" and "the rights granted under state law are equivalent to any exclusive rights within the scope of federal copyright as set out in 17 U.S.C. § 106." *Ehat* v. *Tanner*, 780 F.2d 876, 878 (10th Cir. 1985). Because the state-law right need not be identical but only "equivalent" to a right granted by section 106, 17 U.S.C. § 301(a), courts will find equivalency under the second prong of this test if "the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights." Pet. App. 14a.

Contrary to respondents' claims that remedies are entirely irrelevant to preemption analysis, the standard approach for determining the equivalency of state and federal rights compares the *remedies* that enforce those rights, as the Sixth Circuit recognized:

> [I]f an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display *in order to constitute a state-created cause of action*, there is no preemption, provided that the extra element *changes the nature of the action* so that it is

> qualitatively different from a copyright infringement claim.

Pet. App. 14a. (emphasis added); *see also id.* at 19a-20a (contrasting causes of action for breach of implied-in-fact versus implied-in-law contracts).[1]

Here, even though respondent's implied-in-fact contract claim requires proof of an "extra element" of a promise to pay, the state- and federal-law rights are equivalent because "the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights," and thus the extra element does not "change the

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[1] The cases on which respondents rely in arguing that remedies are irrelevant to section 301 preemption analysis do not stand for that proposition. Respondents invoke the statement in *Rodrigue* v. *Rodrigue*, 218 F.3d 432, 440 (5th Cir. 2000), *cert. denied*, 121 S. Ct. 1227 (2001) that "'the right to enjoy the earnings and profits of the copyright'" is not among the quintet of rights protected in section 106. Opp. 20. However, *Rodrigue* did not address whether a copyright owner had a federal right to receive compensation for his or her work under the Copyright Act but, rather, whether a state could subject that compensation to community property rules. 218 F.3d at 439-40. Similarly, respondent's citation to *National Car Rental Sys., Inc.* v. *Computer Assocs. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993), is inapposite. Opp. 20. *National Car* followed the exact same test as the Sixth Circuit, determining equivalency of state and federal rights by comparing the remedies for enforcing those rights. *See* 991 F.2d at 431 (determining whether the state breach-of-contract "cause of action [is] qualitatively different from an action for copyright [infringement]"). That case concerned an express contractual restriction prohibiting National Car from using copyrighted software to process data for third parties. *Id.* at 430, 433. The Eighth Circuit held that this specific restriction created a right distinct from the exclusive rights granted by section 106, and thus "constitute[d] an extra element that makes this cause of action qualitatively different from one for copyright." *Id.* at 433. Having found the causes of action to be qualitatively different, that court held that it was irrelevant that the relief available under the contract for breach—such as damages and return or destruction of the licensed software—was identical to that available under the Copyright Act. *Id.* at 435.

nature of the action." Under the Copyright Act, an infringer's use of the copyrighted work entitles the rights holder to be paid the reasonable value of that use. Under the claimed implied-in-fact contract, Taco Bell's use of respondents' work entitles respondents to be paid the reasonable value of the use of the work.[2] The "extra element" of a promise to pay merely narrows the right protected by the Copyright Act—but it does not change the fact that the same essential act that violates state law likewise violates the rights preserved under the Copyright Act. Without its erroneous conclusion that the Copyright Act (unlike respondents' implied-in-fact contract claim) does not permit recovery of damages for the reasonable value of works used, the Sixth Circuit simply could not have concluded that the respondents' claim survived Section 301 preemption. As such, the clear conflict created by the Sixth Circuit is far from dictum: it is a necessary holding that should be reversed.

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[2] Respondents' assertion (Opp. 23) that Taco Bell has mischaracterized their implied-in-fact contract claim is likewise confused. Respondents argue that it is not improper use but Taco Bell's failure to pay that gives rise to their claim under the alleged implied-in-fact contract. *Id.* But that is not so, and underscores the difference between a contract (express or implied) with a price term, and (as here) an implied-in-fact contract without such a term. There was no determinate price that Taco Bell could be said to have "fail[ed] to pay," *id.*, under the alleged contract. Regardless of whether Taco Bell had offered any payment, or how large such payment might be, respondent would have a state-law right to a jury determination of the reasonable value of Taco Bell's use of the work. In other words, as the district court properly held, Pet. App. 50a-51a, it is Taco Bell's use that gives rise to a cause of action for damages, so long as the respondents contend that the use was improper because contrary to the contract (*i.e.*, not adequately compensated). As such, respondents' implied-in-fact contract claim is more similar to a implied-in-law (or quasi contract) than it is to an express contract, and, like a quasi contract, is preempted. Pet. 13 (citing, *inter alia*, 3 Arthur Linton Corbin, *Corbin on Contracts* § 566, at 307-08 (1960); *id.* at 31 n.18 (Spring Cum. Supp. 2001)).

Moreover, the Sixth Circuit itself rejected respondents' very arguments in granting Taco Bell's application for a stay of the mandate pending the petition for certiorari. A court of appeals may stay its mandate only upon a showing "that the certiorari petition would present a substantial question and that there is good cause for a stay." Fed. R. App. P. 41(d)(2)(A); see also 6th Cir. R. 41(a) (noting that stay may be granted if "there is a showing, or an independent determination by this Court, that a petition for writ of certiorari would present a substantial question and that there is good cause for a stay"). Taco Bell sought a stay on the grounds that the 5-1 circuit split on whether the Copyright Act entitled the rights holder to be paid the reasonable value of the infringer's use is a substantial question on which this Court was reasonably like to grant certiorari. Respondents opposed the stay with the exact arguments they raise here: that the Sixth Circuit's discussion of Copyright Act remedies was dictum, and that remedies are irrelevant to preemption analysis. The Sixth Circuit necessarily rejected those arguments in finding that the question to be presented by Taco Bell's petition for this Court's review was a substantial one warranting the stay. It would not, and could not, have granted a stay based on dictum that had no bearing on section 301 preemption.[3]

Thus, far from a "passing reference to remedies," Opp. 7, the Sixth Circuit's incorrect analysis of the remedies

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[3] The Sixth Circuit's recent decision in *Murray Hill Publications, Inc.* v. *ABC Communications, Inc.*, 264 F.3d 622 (6th Cir. 2001), does not alter the centrality of its interpretation of the Copyright Act in this case. In *Murray Hill*, the Sixth Circuit held that the complaint there (unlike the complaint in this case) failed to allege an implied-in-fact contract because no enforceable promise to pay was alleged. *Id.* at 638. Thus, the *Murray Hill* plaintiff was deemed to have alleged only an implied-in-law contract, which is preempted. *Id.* Because *Murray Hill* does not revisit the analysis of preemption of implied-in-fact contracts, it hardly "underscore[s] the immateriality of [the Sixth Circuit's] remedies discussion" in this case, as respondents contend. Opp. 18.

available under the Copyright Act was both critical to its conclusion that respondents' implied-in-fact contract claim is not equivalent to the rights under the Copyright Act and contrary to the holdings of five other courts of appeals. This Court should grant certiorari in order to resolve the split of authority and to restore the uniformity and clarity that is both necessary and congressionally mandated in the area of copyright law.

Nothing in the posture of this case militates against certiorari. Respondents point out that this case is not a final judgment because the Sixth Circuit remanded the case for trial. But this Court has jurisdiction to review "[c]ases in the courts of appeals," and not just final judgments. 28 U.S.C. § 1254; cf. *id.* § 1257 (stricter rule limiting this Court's review of state court decisions to "[f]inal judgments or decrees"). In cases arising from the federal courts of appeals, it has long been this Court's rule that where "there is some important and clear-cut issue of law that is fundamental to the further conduct of the case and that would otherwise qualify as a basis for certiorari, the case may be reviewed despite its interlocutory status." Robert L. Stern et al., *Supreme Court Practice* 196 (7th ed. 1993) (citing cases). Here, there is no prudential reason to await a final judgment; the lone federal issue in the case was finally determined by the decision below, and it is only state law issues that remain to be tried. Moreover, reversal of the ruling below would fully dispose of this case, obviating the need for any further proceedings.[4]

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[4] Respondents falsely contend that they will also be able to try an alternative claim that Taco Bell entered into a contract *with* a price term. According to respondents, they submitted a written proposal to Taco Bell with a price term that was never explicitly rejected, and "the jury will be entitled to find that Petitioner became bound by the specific terms of this written proposal" by its conduct. Opp. 12-13, 24. But the alternative of seeking recovery based on an express contract is not available to respondents for several reasons. First, respondents have never asserted a claim founded on Taco Bell's acceptance of the aforementioned written

The important question of federal law presented is thus fully ripe for review.

The disagreement over whether the Copyright Act secures the right of a copyright holder to be paid damages in the reasonable value of the infringer's use of the work is no longer simply a matter of "academic debate," as respondent contends. Opp. 22. There is now a square and mature conflict in the circuits on this point. Because the nature of copyright remedies is intrinsically important, the conflict must be addressed now to avoid forum shopping. If the Sixth Circuit decision stands, any plaintiff seeking use-damages for copyright infringement will now turn to the district courts of other circuits where venue is proper. Conversely, plaintiffs alleging implied-in-fact contract claims that wish to avoid preemption will bring their claims in the courts within the Sixth Circuit if venue can be established.

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proposal or on any other express contract; in the original and amended complaints, only an *implied* contract has been alleged. *See Wrench LLC* v. *Taco Bell Corp.*, 36 F. Supp. 2d 787, 788 (W.D. Mich. 1998) (detailing respondents' eight claims, including implied-in-fact contract and unjust enrichment claims but not an express contract claim). Second, although they invoke the statement in the Sixth Circuit opinion that the written proposal was never "explicitly reject[ed]," Pet. App. 4a, *cited in* Opp. 13 n.2, respondents admitted in discovery that their written proposal was not accepted by Taco Bell. *See* Pet. App. 32a (citing deposition of respondents' agent, Scanlan, at 202-04, to show that "Taco Bell did not accept the proposal"). Third, and most fundamentally, respondents conceded before the district court that their claimed implied-in-fact contract did not include agreement on a price term. *See id.* at 39a (noting, in response to Taco Bell's argument that no agreement was reached as to typical contract terms such as "price, duration, scope of use, and exclusivity," that "*[p]laintiffs agree that no agreement was reached on the terms that would normally be included in a licensing agreement*, but argue that their understanding with Alfaro that Taco Bell would pay Plaintiffs for the use of the Psycho Chihuahua materials if Taco Bell decided to use the Psycho Chihuahua idea is, by itself, sufficient to support an implied in fact contract") (emphasis added).

The circuit split on the question presented alone warrants certiorari. But the importance of the circuit split is underscored by the adverse effect of the decision below on the policies of the Copyright Act. The Sixth Circuit's broad and erroneous decision threatens the national uniformity that Congress has ordered in Section 301, and undermines the predictability and certainty that Congress sought to give participants in the free interchange of ideas. See Pet. at 14-17.[5] It should be corrected.

CONCLUSION

The petition for a writ of certiorari should be granted.

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[5] Respondents attempt to minimize the importance of the question presented by arguing that implied-in-fact contract claims are difficult to prove. Opp. 26-27. That argument is unavailing. First, the fact that plaintiffs may not always be able to prove the claimed implied-in-fact contract is irrelevant; it is the costs of litigating a claim that will often survive summary judgment that will chill a company's willingness to engage in the free exchange of ideas with creators. Second, because all other circuits that have addressed the question have concluded that the Copyright Act grants the right to compensation for use of copyright subject matter, those courts would find an otherwise adequate implied-in-fact contract claim to be preempted under Section 301, and thus would dismiss it. As such, defendants would be forced to fight implied-in-fact contract claims involving copyright subject matter in one circuit, but not in any others. The fact that defendants may ultimately, at the end of the battle, successfully defeat such claims on the merits is scant protection against the confusion and costs that the Sixth Circuit's decision has created.

Respectfully submitted,

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